

Indian Renewable Energy Development Agency Ltd – IPO Note

Industry: BFSI (Govt Company)

Rating: SUBSCRIBE

Date: 20th Nov, 2023

ISSUE HIGHLIGHTS

- ✦ IREDA IPO is a book-built issue of Rs 2,150 Crores. The issue is a combination of fresh issue and offer for sale.
- ✦ The Fresh Issue consists of 403,164,706 (~40.32 Cr) shares, aggregating to Rs. 1290 Crores, at the upper end of the price band i.e., Rs. 32 per share.
- ✦ The Offer for Sale consists of 268,776,471 (~26.88 Cr) shares of Rs. 10 face value, aggregating up to Rs. 860 Crores. The shares will be divested by the Government of India, who currently holds 100% stake of the company.
- ✦ **Objects of the Issue:** The company will not receive any proceeds from the Offer for Sale. Further, the proceeds of the Offer for Sale shall be received by the Promoter Selling Shareholder and will not form part of the Net Proceeds. The company intends to utilize the net proceeds from the fresh issue for the following objects:
 - To augment the company's capital base to meet future capital requirements and onward lending. As IREDA continues to grow their loan portfolio and asset base, they will require additional capital in order to continue to meet the applicable CRAR requirements.
 - Offer expenses incurred.
 - The Company expects to receive the benefits of listing on the Stock Exchanges, including enhancing the brand image among existing and potential customers and creating a public market for the Equity Shares in India.

KEY PERFORMANCE INDICATORS

Book Value	26.88
Price to Book Value	1.19
Market Capitalisation (Rs. Cr)	8,601
PE Ratio (Post Issue)	9.95
EPS (Post Issue)	3.22
Return on Equity (RoE%)	14.6%

ISSUE DETAILS

Price Band	Rs. 30 to Rs. 32 per share
Face Value	Rs. 10 per share
Total Offer Size	671,941,177 shares (aggregating to Rs. 2,150 Cr)
Fresh Issue Size	403,164,706 shares (aggregating up to Rs. 1,290 Cr)
Offer For Sale	268,776,471 shares (aggregating up to Rs. 860 Cr)
Issue Type	Book Built Issue IPO
Minimum lot	460 shares
Issue Opens	Tuesday, November 21, 2023
Issue Closes	Thursday, November 23, 2023
Listing on	Monday, December 4, 2023

Indicative Timeline	On or before
Finalization of Basis of Allotment	Wednesday, November 29, 2023
Unblocking of Funds	Thursday, November 30, 2023
Credit of shares to Demat Account	Friday, December 1, 2023
Listing on exchange	Monday, December 4, 2023

IREDA Ltd IPO Reservation

QIB Shares	Not more than 50% of Net Issue
HNI Shares	Not less than 15% of the Net Issue
Retail Shares	Not less than 35% of the Net Issue

COMPANY OVERVIEW

- ❖ Indian Renewable Energy Development Agency Ltd. (IREDA) stands as a beacon in India's pursuit of sustainable energy solutions. Established in March 1987, this government-owned Mini Ratna (Category - I) enterprise operates under the administrative purview of the Ministry of New and Renewable Energy (MNRE). With over 36 years of experience, IREDA has been instrumental in fostering the growth of renewable energy (RE) projects and promoting energy efficiency and conservation initiatives.
- ❖ In the fiscal year 2021-22, IREDA achieved remarkable milestones, recording the highest-ever loan sanctions of approximately Rs. 23,921.06 Crores and disbursing loans totalling around Rs. 16,070.82 crores. This exemplifies its pivotal role in financing and catalyzing the development of new and renewable energy ventures across India.
- ❖ A key facet of IREDA's operations is its comprehensive suite of financial products and services tailored to support the entire lifecycle of renewable energy projects. From conception to post-commissioning phases, the company extends a range of fund-based and non-fund-based solutions. These offerings encompass diverse activities such as project financing, equipment manufacturing, transmission, and fostering the growth of associated value chain entities.
- ❖ With a robust geographic footprint spanning 23 states and five union territories, IREDA has strategically diversified its loan portfolio. Notably, the organization holds the distinction of being India's largest dedicated green financing non-banking financial company (NBFC), underscoring its prominence in the sector.
- ❖ The company's focus on renewable energy sectors—solar, wind, hydro, biomass, biofuels, and cogeneration—aligns with India's broader green energy ambitions.
- ❖ Moreover, IREDA's forward-looking strategy emphasizes innovation in financing models, targeting segments like captive and merchant projects. Strengthening consortium financing for large-scale solar and wind projects and facilitating developer access to capital markets through avenues such as securitization and InvIT financing are pivotal to their future roadmap.
- ❖ IREDA's collaborations through Memorandums of Understanding (MoUs) with leading financial institutions and entities like Bank of India, Bank of Baroda, Union Bank of India, and India Infrastructure Finance Company, as well as agreements with Satluj Jal Vidyut Nigam and National Hydro-electrical Power Corporation, demonstrate the company's proactive stance in forging alliances and providing techno-commercial advisory services.

RISKS

1. **Interest Rate Volatility:** Fluctuations in interest rates due to external factors like RBI policies could impact profitability, especially if the cost of funds rises, affecting net interest margins.
2. **Borrowing Challenges:** Difficulty in securing borrowings at competitive rates due to credit ratings and regulatory influences may adversely affect financial conditions and operations.
3. **Credit Rating Concerns:** Historical credit rating downgrades and uncertainty in maintaining or further upgrading ratings pose a risk to the company's financial condition.
4. **Non-Compliance with Covenants:** Past instances of non-compliance with financing agreement covenants raise concerns about potential reputational damage and immediate repayment requirements.
5. **State and sector Concentration & NPAs:** Concentration of NPAs in specific sectors like biomass power, cogeneration, and wind power poses a risk to financial condition and operations. Loan concentration in specific states poses risks during economic downturns or regulatory changes, potentially increasing defaults and impacting the business.
6. **Delayed Payments from DISCOMs:** Weak financial health of state DISCOMs causing delays in payments to renewable energy projects could affect borrower repayment capability.
7. **Statutory Proceedings Under PMLA and litigation risks:** Ongoing statutory proceedings under the Prevention of Money Laundering Act may impact the recovery of certain loans. Adverse outcomes in these proceedings could have consequences on our financial condition. Multiple ongoing legal proceedings, including criminal cases and civil litigations, pose a potential financial burden. Adverse rulings or penalties may lead to increased expenses and liabilities.

FINANCIALS

Income Statement Extract

Particulars (Rs. Cr)	As on 31 st March 23 (Standalone)	As on 31 st March 22 (Standalone)	As on 31 st March 21 (Consolidated)
Interest Income	3,374	2,713	2,564
Interest Expense (Finance Cost)	2,088	1,587	1,570
Net Interest Income (NII)	1,285	1,126	994
Expenses	255	453	518
PBT	1,139	834	570
Tax	275	200	223
PAT	865	634	346

Balance Sheet

Particulars (Rs. Cr)	As on 31 st March 23 (Standalone)	As on 31 st March 22 (Standalone)	As on 31 st March 21 (Consolidated)
Equity Capital	2,285	2,285	785
Reserves	3,651	2,984	2,211
Borrowings	41,652	28,632	24,955
Other Liabilities	2,860	2,809	2,343
Total Equity and Liabilities	50,447	36,708	30,293
Fixed Assets	234	251	266
CWIP	139	128	0
Investments	705	529	426
Other Assets	49,369	35,800	29,601
Total Assets	50,447	36,708	30,293

Notable Ratios & Metrics

Particulars	As on 31 st March 23	As on 31 st March 22	As on 31 st March 21
Gross NPA (Rs. Cr)	1,513	1,768	2,442
Gross NPA (%)	3.21%	5.21%	8.77%
Net NPA (Rs. Cr)	768	1,035	1,510
Net NPA (%)	1.66%	3.12%	5.61%
Basic EPS (Rs.)	3.78	8.03	4.41
Net Interest Margin (%)	3.32%	3.75%	3.93%
Gross Loan Portfolio (GLP) or Term Loans Outstanding (Rs. Cr)	47,076	33,931	27,854
GLP Growth (%)	38.74%	21.82%	18.29%
Loans Sanctioned (Rs. Cr)	32,587	23,921	11,001
Loans Disbursed (Rs. Cr)	21,639	16,071	8,828
Return on Assets (RoA%)	1.98%	1.89%	1.20%
Return on Equity (RoE%)	15.44%	15.33%	12.56%

PEER COMPARISON

Company	Market Cap (Rs. Cr)	PE Ratio	P/BV	ROE% (FY23)
IREDA Ltd	8600	9.95	1.19	14.6%
REC Ltd	90,952	7.12	1.44	19.4%
Power Finance Corporation	1,06,626	5.90	1.13	18.9%

INDUSTRY OUTLOOK

The power financing NBFCs in India have experienced robust growth, witnessing outstanding credit reaching approximately ₹9,399 billion in Fiscal 2023 at a CAGR of 10% since Fiscal 2019. Projections for Fiscal 2024 indicate continued expansion, driven by escalating power demand, population growth, and a strong focus on renewable energy integration, aligning with India's sustainability goals. Despite a brief dip in power demand during Fiscal 2021 due to the pandemic, the industry has shown consistent growth, with forecasts predicting a rise in peak electricity demand to 277 GW and energy requirement to 1,908 BU by Fiscal 2027. With renewable energy poised to account for 66% of total power generation capacity by Fiscal 2032, initiatives like the National Green Hydrogen Mission and the target of 30% electric vehicle adoption by 2030 present significant lending opportunities for power-focused NBFCs. These entities, specializing in funding power generation, transmission, and renewable energy projects, anticipate growth in lending needs within the power sector, capitalizing on government-led sustainability objectives. The positive trends in asset quality, characterized by a decline in gross NPAs owing to proactive measures such as asset restructuring and increased provisioning, underscore the sector's resilience and readiness to manage risks associated with power project financing.

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